

Kiwifruit



New Zealand

KGI Forum Presentation

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So where did that 10 years go?

1. The Regulations
2. Mitigation Measures of the Regulations
3. Collaborative marketing results
4. Other things

1.1: The Regulations are for growers:

- The Regulations resulted from growers wishing to work together for their common good
- The Regulations provide the opportunity to capture marketing and cost economies of scale, and exporter accountability and performance
- Growers control the governance of the kiwifruit industry from orchard to market:
 - through ownership of orchards &
 - through shareholding in pack-houses
 - through ownership of Zespri (5 industry directors)
 - through the Regulatory right to elect 4 KNZ Directors

1.2: What does KNZ do: two main areas of activity

- Export orientated:
 - Authorise ZGL to export New Zealand grown kiwifruit (*Regulation 4*) at FOBS (*Regulation 5(c)*)
 - Determine collaborative marketing applications (*Regulation 33*) the purpose of which is “increasing the overall wealth of NZ kiwifruit suppliers”
- Monitoring and enforcement:
 - the non diversification rule (*Regulation 11*),
 - the non discrimination rule (*Regulation 9,10*),
 - the information disclosure requirements (*Regulations 12, 14 and 15*)

Note: 1. The Board must perform its function “in a manner that is as efficient and cost effective as possible” (*Regulation 34*)
2. KNZ is subject to the OIA

1.3: The purpose of the two main areas of the Regulations is:

<i>Regulatory Provisions:</i>	Purpose:
<i>The export orientated provisions</i>	<ul style="list-style-type: none">• Sets acquisition of title at FOBS or later, preserving onshore competition, and self-accountability of grower and packhouse for own performance• Authorises export by Zespri• Provides other exporters an opportunity to increase the overall wealth of NZ kiwifruit suppliers through collaborative marketing
<i>Monitoring and enforcement</i>	<ul style="list-style-type: none">• The governance of Zespri and its activities

2.1: What exactly is governance – what is required, what is allowed, what is not:

Governance refers to the mechanisms, processes and relations by which organisations are controlled and directed.

Governance structures identify the distribution of rights and responsibilities amongst different participants (in the industry) and includes the rules and procedures for making decisions in corporate affairs.


KNZ Governance (generally constraints):

- Legislation generally
- Regulations
- Judicial review: check on KNZ decision making
- Official Information Act: right of public to know about the information KNZ holds
- Voluntary KNZ Governance

Industry Governance - impact of Regulations:

- Authorises Zespri to export. (allowed)
- The Authorisation includes a complaints regime (constraint/compliance)
- KNZ must consider CM applications (required)
- Assessment and approval of CM applications by KNZ (required)
- Mitigation measures (constraints)

2.2: What governance provisions are in the Regulations relating to KNZ – examples:

Provision	Restriction or requirement	Purpose
<i>Restriction on KNZ activities (no general industry supervision role) KNZ cannot make a profit</i>	KNZ is not authorised to do other than what is in the Regulations: KNZ can not carry out any commercial activity, KNZ cannot make a profit. KNZ cannot purchase or sell kiwifruit	Ensures KNZ sticks to its Regulatory role
<i>Collaborative marketing provisions</i>	Regulate procedures consistent with Natural justice Kiwifruit allocation power KNZ may impose reasonable and necessary conditions KNZ must give reasons for decline in writing Publish results of CM	<ul style="list-style-type: none"> • Transparency of decision making by KNZ • Fully maximise overall opportunities. • Independent assessment • No veto by Zespri. • No refusal to provide HW
<i>Directors</i>	KNZ must have a Chairman fully independent of the kiwifruit industry Growers may elect anybody to be a Director of KNZ	Business of KNZ is conducted without bias Ensures grower control
<i>Fees</i>	KNZ funding of CM by CM, otherwise by Zespri	Limits KNZ to funding for purpose
<i>Constitutional type rules</i>	For example: Body corporate, Director term of office, Meeting procedures, Appointment of committees, Delegation, administration	KNZ's equivalent of a Constitution Kiwifruit  New Zealand

2.3: What is the purpose of the governance provisions in the Regulations relating to Zespri - Constraints:

Mitigation Provision	Purpose	Governance
Regulation 9: Non-discrimination Zespri must not discriminate between suppliers and potential suppliers in respect of <ul style="list-style-type: none"> • a decision to purchase kiwifruit or • the terms of purchase, other than on commercially justifiable grounds.	Equity in treatment of suppliers and potential suppliers to Zespri, other than when discrimination is justified on commercial grounds	<ul style="list-style-type: none"> • Monitoring by KNZ • Complaint to KNZ, informal or formal • KNZ can order rectification
Regulation 11: Non-diversification Zespri must not carry out any activity, nor own or operate assets, <ul style="list-style-type: none"> • that are not <i>necessary</i> for the core business of purchasing NZ grown kiwifruit, and its export, • <i>unless</i> capital providers have been asked and have <i>agreed</i> to the use of their capital, • or the <i>risk</i> to those that have not agreed is <i>minimal</i> 	<ul style="list-style-type: none"> • Protects shareholders and growers capital from being used for activities that are not necessary for the purchase and export of NZ grown kiwifruit without their approval. • Ensures Zespri sticks to its “necessary for core” role unless otherwise agreed or risk is minimal 	<ul style="list-style-type: none"> • Monitoring by KNZ • Complaint to KNZ, informal or formal • KNZ can order rectification
Regulation 12, 13, 14: Information disclosure	Zespri is required to disclose additional financial and operational information > Companies Act requirements	<ul style="list-style-type: none"> • The information must be publicly available unless exempted from disclosure by KNZ.

2.4: KISP proposes changes to the governance provisions of the Regulations:

	Provision	Proposed (KISP)
Zespri Governance	Non-discrimination	No known change
	Non-diversification	<p>KISP proposes to remove cultivar development, PVR ownership, 12 month supply, Research and development and supply chain management from those activities monitored and enforced by KNZ.</p> <p>In their current form, all these activities are assessed as core business or necessary for core.</p>
	Information disclosure	No known change
KNZ	Collaborative marketing	<p>KNZ funding to be made more flexible, so that KNZ can reduce the cost of collaborative marketing to collaborative marketers.</p>

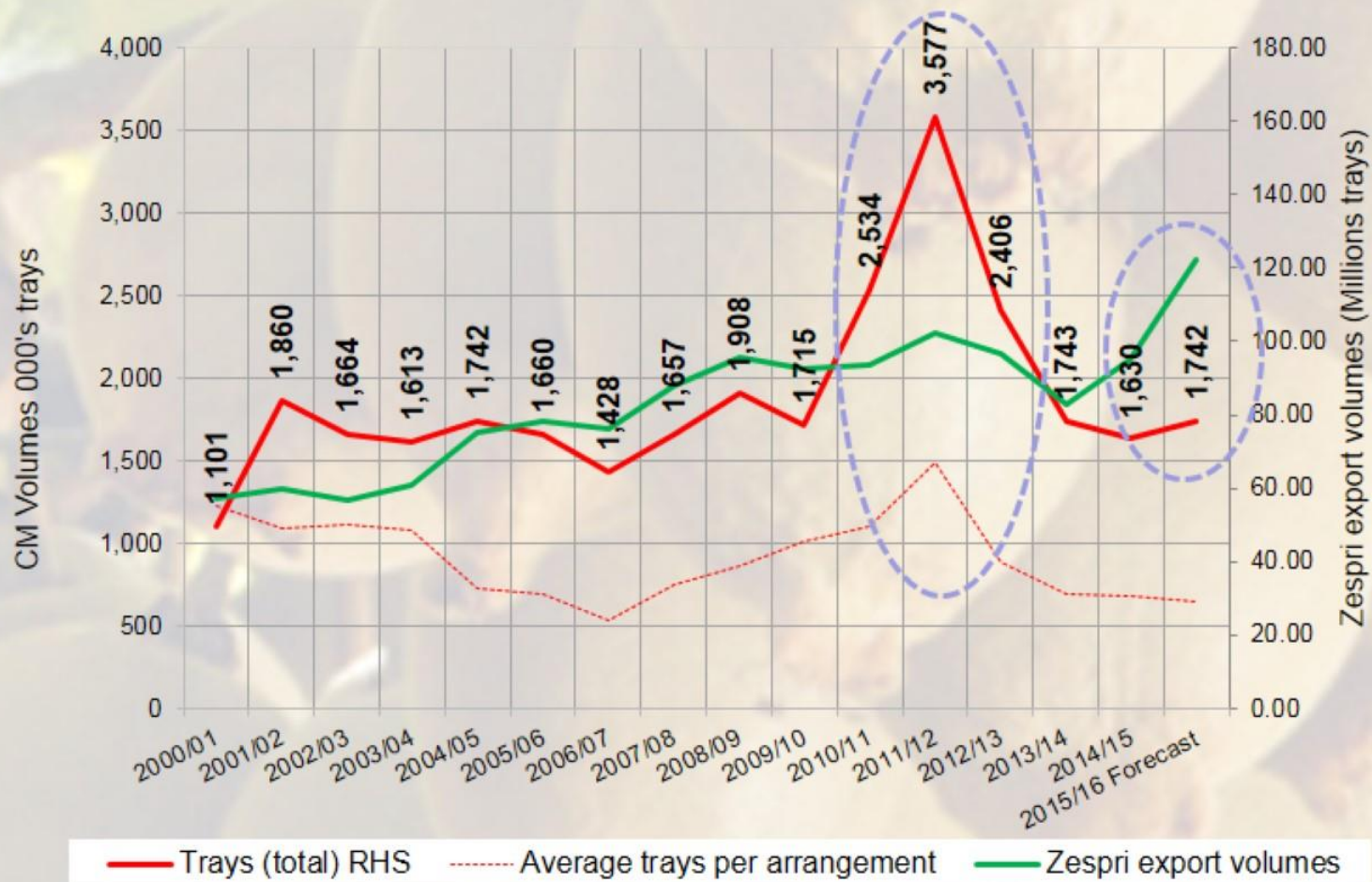
3.1: There are only two requirements of a collaborative marketing arrangement:

- A collaborative marketing arrangement means an arrangement by which a person may export New Zealand grown kiwifruit in collaboration with Zespri (*Regulation 2 definition*)
- A collaborative marketing arrangement must meet the purpose of increasing the overall wealth of New Zealand kiwifruit suppliers (Regulation 24)

3.2: A high percentage of applications have been approved:

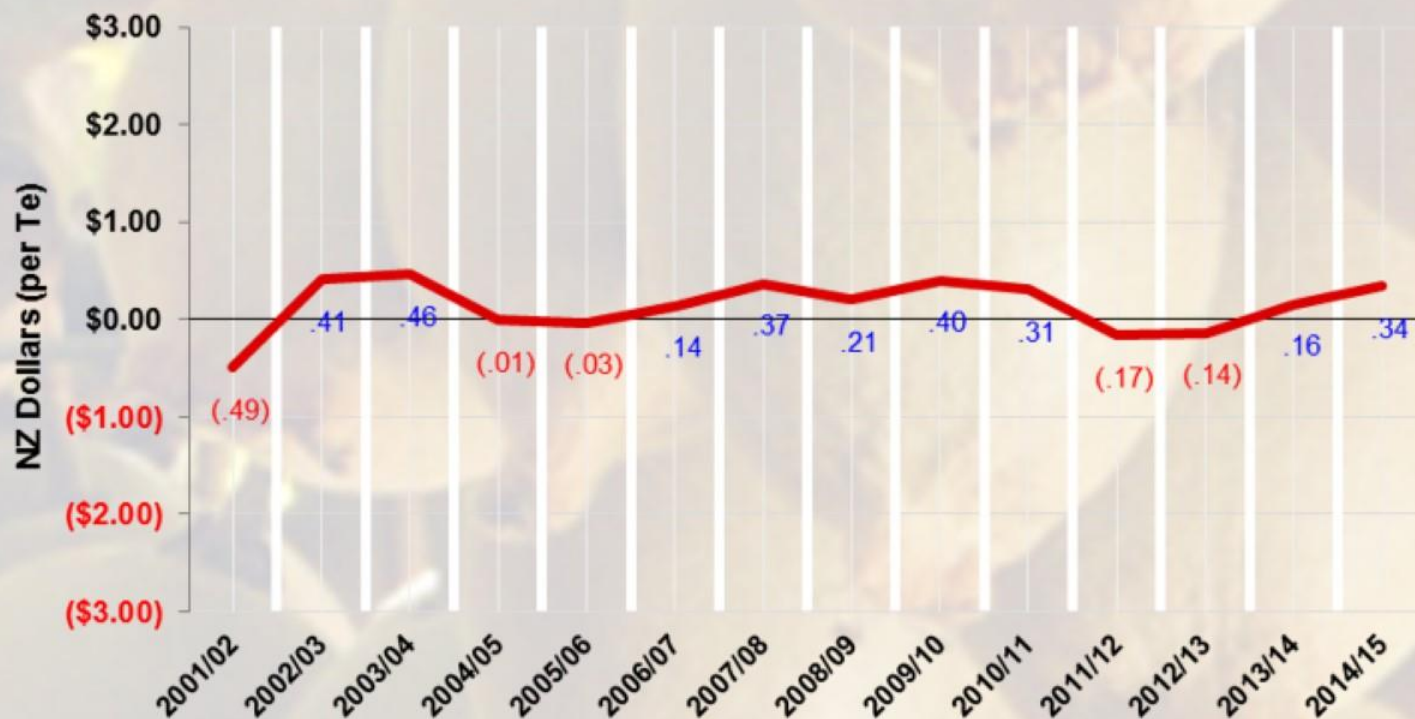
Each five years	Net applications (number)	Approved (number)	% approved	Declined (number)
2005-2010	134	117	87%	17
2011-2015	149	138	93%	11
This season				
2015-16	28	27	96%	1

3.3: Prior to the last five seasons, CM volumes correlated reasonably with exports:

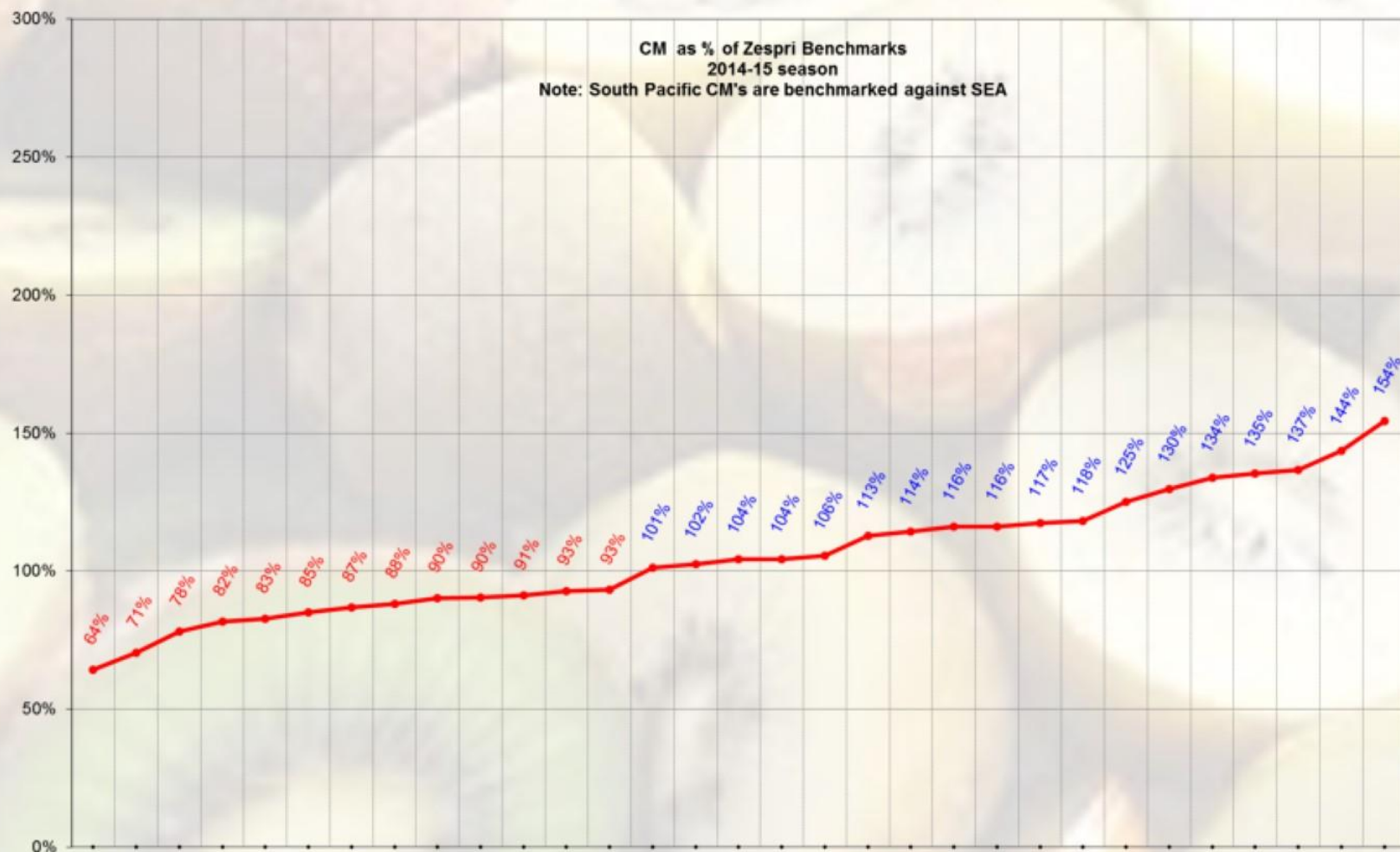


3.4: Over time, approved CM arrangements have generally added to overall wealth:

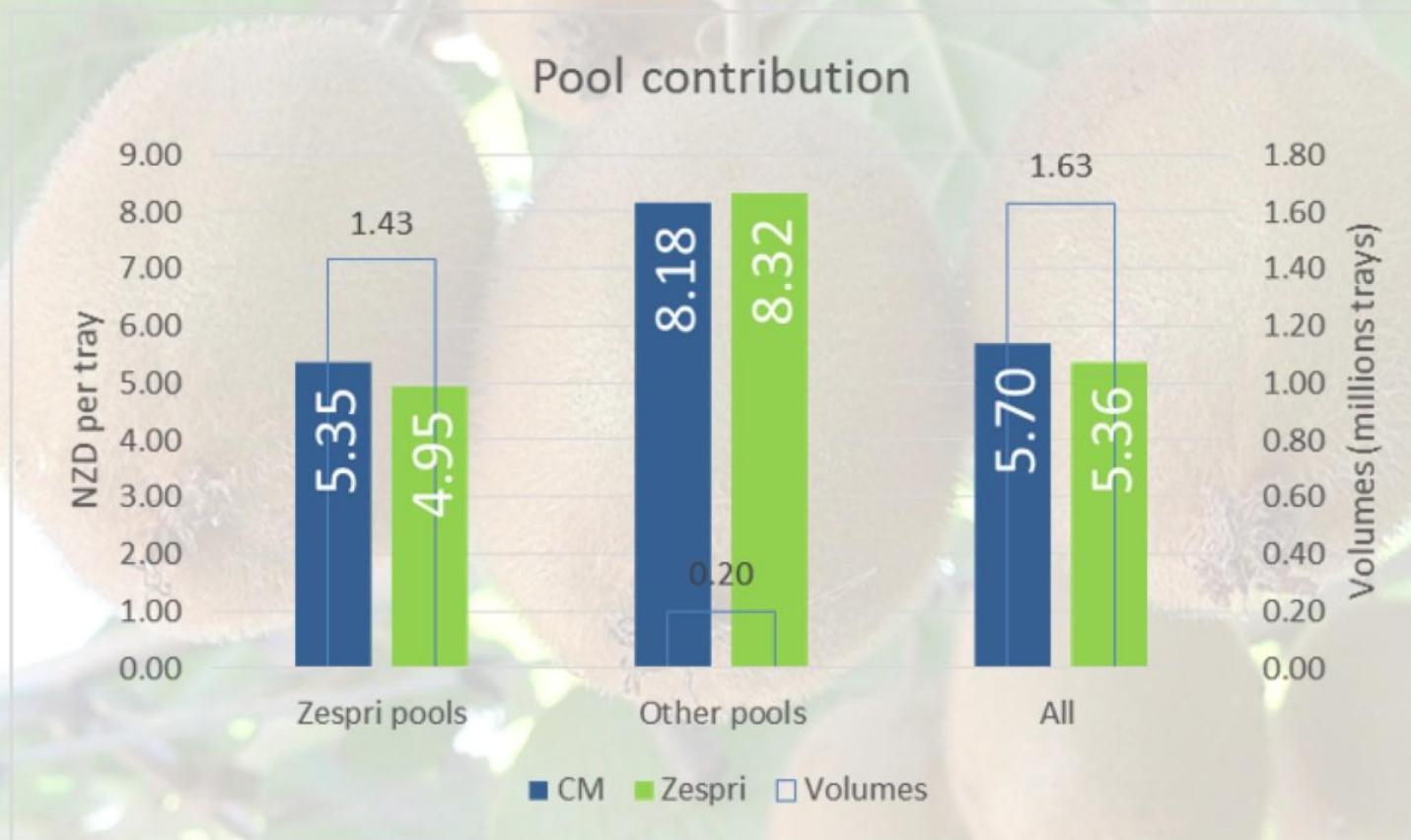
Incremental Fruit Return from CM Arrangements
Incremental OGR from 2012-13 season



3.5: In 2014-15, 60% of collaborative marketing arrangements exceeded benchmark



3.6: With a positive contribution to the Zespri Pools:



3.7: Why is the approval rate so high?

- The application forms encourage collaborative marketers to disclose sufficient pertinent information to enable the Collaborative Marketing Committees to be satisfied that the application meets the Regulatory criteria
- Some Collaborative marketers have gained experience of how to utilize collaborative marketing, and what drives OGR
- Zespri are prepared to work with prospective collaborative marketers who meet the Regulatory criteria
- However, WE ARE SURPRISED that amongst the 255 applications approved in the last ten years that NONE HAVE EVOLVED into high volume, significantly innovative and wealth enhancing arrangements that meet the regulatory criteria
- We remain hopeful, and would welcome a substantial innovative wealth creating arrangement.

3.8: The main messages from Collaborative Marketing

- **93% average application approval rate over last 5 years**
- **96% application approval rate last year**
- Increased overall wealth
- Static to declining (relative and actual) CM volumes
- Increasing third party cultivars component
- We are looking forward to receiving a substantial innovative collaborative marketing application

4.1: KNZ must operate cost effectively (Reg 34)¹

Expenses	2014-15 NZ\$000	2013-14 NZ\$000	2012-13 NZ\$000
Funding as reported by Zespri ²	453	318	285
Amount refunded/(charged) to Zespri after year end	(63)	(33)	5
Regulation 39(a) funding from Zespri	390	351	280
General funding transferred from one year to another by KNZ	-	-	(1)
<u>Actual general funding each year</u>	390	351	279
Regulation (b) collaborative marketing funding and costs; and interest	256	232	282
KNZ actual costs (inclg CM)	645	583	562

1. Regulation 34. Figures extracted from KNZ Annual Report

2. Per note in Zespri Annual Accounts

Any Questions?

